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Beckton
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PATHLOW FEEDLOT COMPLEX

BUSINESS PLAN

FOR

BEEF INDUSTRY DEVELOPMENT LTD.

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EXECUTIVE SUMMARY

Beef Industry Development Ltd. is preparing to build a feedlot in the Pathlow area which will be integrated with a comprehensive soil improvement and cropping plan, plus developing a more stable cash flow for producers and connected industries.

The major concept behind the success of the feedlot is that grain producers and beef producers will work together to stabilize the agricultural economy in Saskatchewan. Grain producers will supply the grain and silage for the feedlot and beef producers will supply calves to be fed through the feedlot. In so doing, the grain producer will be reducing his dependence on the export market, and the beef producer will be able to improve the feed efficiency and carcass size of his herd. The feedlot will deliver and apply manure to the grain producer's land which will improve the fertility and structure of the soil.

The feedlot will be capable of handling approximately 13,200 head at any one time. In one year the feedlot is expected to feed out 29,000 head based on an occupancy of 85%. The feedlot will be equipped with the machinery and equipment necessary to load, haul, and spread manure, to haul grain, and to swath, harvest, haul, and pack silage. The feedlot will provide these services to the grain producer, and the cost of providing these services will be deducted from the price paid to the producer for barley and silage.

An important concept in the structure of the feedlot complex is that, unless occupancy is very low (less than 50%), the feedlot operation will always turn a profit.

Changes in the price of feed and supplements are passed on to the beef producer and changes in the cost of direct expenses (fuel, oil, equipment repair, labour, etc.) are passed on to the grain producer through fluctuations in the price paid for feed supplied to the feedlot. By becoming a shareholder in the feedlot, the beef producer or grain producer can share in the profits of the feedlot.

Total capital required for this project is $5,793,137. This amount includes the machinery and equipment, the milling complex, the feeding equipment and pens, the bunker silo, an asphalt surface and the land, in addition to operating funds of $1,200,000. The operating capital is required to meet most contingencies and unforeseen problems, as well as to purchase feed and inventory to start up.

The project will raise $3,750,000 by selling 200 shares to grain producers. Each grain producer will require $20,000 to invest in the feedlot. The grain producer will use $18,750 to purchase a share in the feedlot complex. The remaining $1,250 will be used to become a member of a feeder association. Under the Feeder Association Loan Guarantee Program, feeder associations can borrow funds from financial institutions on the strength of a government guarantee. Members are required to place, in an assurance fund, 5% of the value of the cattle on feed. The loan guarantee limit is $25,000 for first year members that feed cattle in an association. In the second year, this limit increases to $50,000 and in the third and following years, $100,000. The loan funds will be used to purchase feeder cattle to be fed through the feedlot. The feeder associations will perform an integral role in the feedlot complex by assuring the supply of feeder cattle to the feedlot.

Shareholders will put $5,000 down on the shares and borrow the remaining $15,000. The shares of Beef Industry Development Ltd. will provide the security. An assignment of funds received from the producer's sale of silage and barley will be given to the creditor. Based on an occupancy of 85%, approximately 1,338,480 bushels of barley and 45,276 tons of silage will be required each year. If there are 200 grain producer shares sold, each share would be committed to supply 6,692 bushels of barley and 226 tons of silage. Assuming the net yield for silage in the Pathlow area is 5.4 tons per acre, each share will commit 41.85 acres to silage production. Thus, the investment per acre of silage is $448.03.

Approximately 200 shares will be sold to beef producers. Beef producers will require $1,001 per share to invest in the feedlot. Shares in the feedlot will be sold for $1.00 per share. For each share purchased, the beef producer will also be required to invest at least $1,000 in a feeder association. This amount is based on a payment for 50 calves at $20.00 per head. Beef producers will share in the profits of the feedlot based on how many of their cattle were fed through the feedlot.

The profits will be allocated between the beef producers and grain producers on a 60 - 40 basis. Each year a portion of the profits are held in reserve to serve as a cushion against unexpected circumstances.

The feedlot complex at Pathlow is one of two pilot projects designed to bring the beef and grain industries to work together, making us of each others products and bi-products. There are a number of districts in Saskatchewan that

are interested in implementing a similar feedlot complex. The success of the pilot projects will determine the fate of future developments.

MARKETING PLAN

The Operation

The feedlot complex in the Pathlow area will have the capability to handle 13,200 head of cattle at any one time. Based on an occupancy rate of 85%, approximately 29,000 head will be fed out annually. This feedlot will custom feed cattle for the shareholders and other investors. It will purchase the feed from shareholders. The feedlot will be equipped to haul and spread manure, harvest and haul silage, and haul grain. It will provide these services to the grain producers and deduct the cost of the services from the price paid for barley and silage.

An integral part of the overall operation is an organized monetary incentive to an ongoing soil management program by the grain producer who will grow the feed. The grain producer shareholder will receive the manure back from the feedlot as part of their benefits from ownership in this feedlot. They will also benefit by the fact that they will have an assured market for the barley and silage supplied to the feedlot. The silage will mainly consist of barley as a nurse crop under-seeded with clover or alfalfa. These legumes integrated in the crop rotation will improve fertility and soil structure, thus creating a natural increase in crop yields.

Sources of Cattle

The Saskatchewan market has consistently exported a large number of cattle to other provinces. This feedlot will be able to obtain cattle by reducing the number of cattle exported from Saskatchewan. The capital required to obtain these cattle will come from three sources. The first source will be cow-calf producers who want to have their cattle custom fed in the feedlot. The second source will be investors who will form a feeder association to purchase feeder cattle and have them fed to finish in the feedlot. The third source will be investors who use the venture capital approach to obtain funds to purchase feeder cattle and have them fed to finish in the feedlot.

There are two incentives that will be used to initiate cattle producers to come to the feedlot:

1. to offer market price delivered to the feedlot, and
2. to become a shareholder of the feedlot and share the profit.

Sources of Feed

All the feed for the feedlot will come from the grain producer shareholders. If the shareholders are unable to producer a sufficient amount, then additional feed will be bought on the market. This should not occur often unless there is a wide spread crop failure in the Pathlow area. The shareholders who will be supplying the barley and silage to the feedlot will be within the 48 mile square, complex area.

The feedlot complex will haul producer grain to the feedlot, swath, harvest, haul, and pack silage at the feedlot and load, haul, and spread manure from the feedlot. The cost of providing these services will be deducted from the price paid to the producer for barley and silage.

The market price for barley has been projected at $1.60 per bushel and the market price for silage, $40.00 per ton. To show the effect of a change in the price for feed, the prices have also been estimated at $1.20 per bushel and $32.00 per ton, respectively.

Market for Finished Animals

The packing industry has assured us that if the cattle numbers produced and finished in Saskatchewan become stable, they will build facilities to kill, process, and market them in the province. The value of the finished animals will be determined by:

1. the price received from the market as a finished animal, and
2. the payment received through the Saskatchewan Beef Insurance Program.

The Beef Insurance Program or an equivalent program is necessary to stabilize the number of cattle in Saskatchewan. Beef producers will alter the size of their herd as the price paid for finished cattle fluctuates. When the price paid for finished feeders is high, the market is oversupplied and when the price is low, the reverse is true. If the price for feeders is stabilized then, the supply of feeders will also stabilize. A steady supply of cattle is crucial to the successful operation of the feedlot.

OPERATING PLAN

Legal and Financial Structure

The feedlot operation will take the form of a corporation. There will be a minimum of two classes of shares issued.

The total capital required for the project is $5,793,137. The equity structure of the corporation will be as follows:

Grain Producer Shareholders	$ 3,750,000
Beef Producer Shareholders	200
	$ 3,750,200

The remaining capital required, $2,043,137 will be obtained through a loan or grant. The intermediate loan will be amortized over ten years at an assumed interest rate of 11%; whereas, the long-term loan will be amortized over twenty years at an assumed interest rate of 11%.

The bank would have a first charge on the feedlot complex, as well as all of the equipment and an assignment of accounts receivable for the operating loan. In the proposed development plan, the bank would be margined two dollars to one for every dollar loaned to the feedlot.

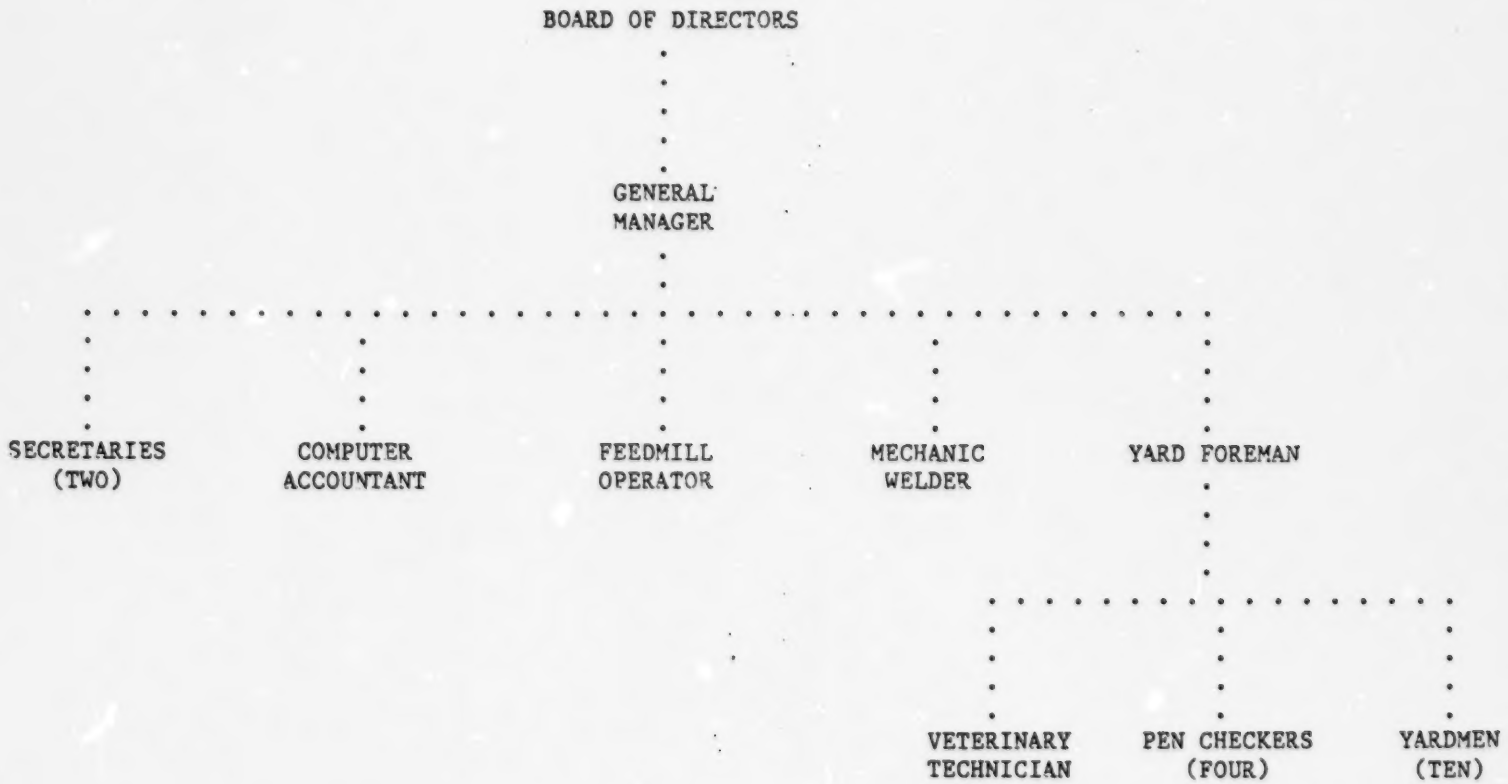
Chain of Command

The major policy decisions will be made by the Board of Directors. The Board will decide how the feedlot will be run and the general manager will implement their decisions. From time to time, the Board may need to bring in outside expertise to assist in the areas of law, animal science, animal health, etc. The Board will also decide what portion of the profits will be paid in dividends and when the dividends will be paid.

The general manager will be responsible for the day-to-day operations of the feedlot and implementing the policy set by the Board of Directors. As shown in the flow chart, the secretaries, accountant, feedmill operator, mechanic-welder, and the yard foreman are all responsible to the general manager.

The yard foreman controls the operations that occur in the feeding facilities. The veterinary technician, pen checkers, and yardmen are all responsible to the yard foreman. The yardmen's main duties involve handling

PATHLOW FEEDLOT COMPLEX -- ORGANIZATIONAL FLOW CHART



cattle, treating sick cattle, and working with the pen checkers. The yardmen will also be available to drive feed trucks, load and spread manure, and haul silage.

Personnel Requirements

In addition to having an extensive knowledge of the feedlot operation, the general manager must also understand how the various positions (pen checkers, yardmen, mechanic, accountant, etc.) must work together to run a profitable business. The general manager must also possess the leadership qualities that promote employee morale and motivation.

The positions of accountant, feedmill operator, mechanic-welder, yard foreman, and veterinary technician will all require personnel who have previous experience in their area of specialization. Although experience is an asset, the pen checkers and yardmen do not require previous experience. The pen checkers and yardmen will be able to acquire the majority of their skills during the start up phase of the feedlot operation. The secretaries should have a basic knowledge of office duties and procedures. Experience is preferred but not necessary.

Key Individuals

1. JOSH STOREY - Mr. Storey is one of the key individuals responsible for the initiation of the feedlot complex pilot projects. He is very experienced at feeding cattle and operating a feedlot.

Mr. Storey has farmed in the Melfort area all his life. He presently owns and operates a large modern feedlot which has the capability to feed approximately 1,500 head at one time.

2. MURRAY ORAM - Mr. Oram is another of the key individuals responsible for the initiation of the pilot projects.

Mr. Oram has an irrigation farm in the Central Butte area where he also owns and manages a mixed cattle operation. Mr. Oram will be beneficial as a representative of the needs and viewpoints of the producers of the irrigation area.

3. DR. C.M. WILLIAMS - Dr. Williams is a professor at the University of Saskatchewan specializing in the discipline of Animal Science. From the beginning, Dr. Williams has been involved with the pilot projects.

Dr. Williams is an expert in livestock feeding. He will be one of the major advisors on the management team of the feedlot.

4. GRANT CARSON - Mr. Carson owns a law practice in Melfort as well as a farm in the Melfort area.

Mr. Carson will be able to advise the management team in areas requiring legal expertise.

FINANCIAL PLAN

Feed Requirements

The feedlot will be capable of feeding 29,000 head annually. The feedlot is expected to feed 6,600 calves and 22,440 short keeps each year. These numbers are based on an occupancy rate of 85% for short keeps.

The average feed required to feed out calves is 60 bushels of barley and 2.44 tons of silage. To feed out short keeps, 42 bushels of barley and 1.30 tons of silage are required. On average, calves are fed for 214 days and short keeps are fed for 125 days.

The feed requirements for the feedlot at Pathlow will be determined as follows:

Occupancy:

6,600 calves - no slippage	6,600
26,400 short keeps less 15% slippage	22,440
	29,040

Barley Required:

Calves	6,600 head x 60 bushels =	346,000
Short Keeps	22,440 head x 42 bushels =	942,480
		1,338,480

Silage Required:

Calves	6,600 head x 2.44 ton =	16,104
Short Keeps	22,440 head x 1.30 ton =	29,172
		45,276

Feed Required Per Shareholder:

Barley	1,338,480 bushels ÷ 200 shareholders	6,692 bushels
Silage	45,276 tons ÷ 200 shareholders	226 tons

Manure Production:

Short Keeps	22,440 head x 35 lbs/day x 125 days =	98,175,000
Calves	6,600 head x 25 lbs/day x 214 days =	35,310,000
Bedding	13,000 head x 5 lbs/day x 150 days =	9,750,000
Total lbs		143,235,000

143,235,000 lbs ÷ 2,000 = 71,618 tons
Shareholder share = 71,618 tons ÷ 200 = 358 tons

Total Steer Days:

Short Keeps	22,440 head x 125 days =	2,805,800
Calves	6,600 head x 214 days =	1,412,400
Total days		4,217,400

Cost of Services Provided

The feedlot complex will provide the following services to its shareholders:

- load, haul, and spread the manure from the feedlot
- swath, harvest, haul, and pack silage at feedlot
- haul producer grain to feedlot

The cost of providing the above listed services will be deducted from the price paid to the producer for barley and silage.

The market price assumed for barley is $1.60 per bushel and for silage $40.00 per ton. To show the effect of a change in the price of feed, barley has also been estimated at $1.20 and silage at $32.00.

The cost to provide these services are based on the following assumptions:

- The average miles travelled one way per trip to haul manure, grain, and silage will depend on the density of the producer shareholders. We have used 20 miles per one way as the distance travelled in the calculations.

- The long run average price for diesel $1.80 per gallon.

- A total of 149,018 tons of product are hauled; costs are allocated based on the following percentages:

Grain =	32,124 tons	= 21.56%
Silage =	45,276 tons	= 30.38%
Manure =	71,618 tons	= 48.06%
	149,018 tons	

- The hours attributed to loading manure are determined assuming it takes 20 minutes to load one 15-ton load. It will take 4,775 loads to haul 71,618 tons of manure; therefore, total loading time is approximately 1,600 hours.

- The costs for loading straw, silage, and manure are based on the following proportions. The cost allocated to straw is paid for by the company.

Straw =	2,000 hours	= 31.56%
Silage =	2,737 hours	= 43.19%
Manure =	1,600 hours	= 25.25%
	6,337 hours	

- The wage rate is $9.00 per hour and employee benefits are estimated to be 15% of the gross wage.

- Additional workers will be hired to haul product during the summer months. Eight men will be required to run extra eight-hour shifts for 25 days for silage harvest.

Total Wage = 8 hours x $9.00 x 25 days = $14,400.

The costs charged to the producer shareholder for services are determined as follows:

1. Grain Hauling - 1,338,480 bushels barley = 32,124 tons

a) number of loads =	32,124 tons ÷ 14 TPL =	2,295 loads
b) miles travelled =	2,295 loads x 40 miles =	91,800 miles
c) fuel consumed =	91,800 miles ÷ 5 MPG =	18,360 gallons

Cost

Fuel (18,360 gallons x $1.80)	$ 33,048
Grease, Oil	3,305
Licenses & Insurance (21.56% x $6,848)	1,476
Principal & Interest - Truck (21.56% x $70,637)	15,229
Wages & Benefits (21.56% of $14,400 x 1.15)	3,570
Repairs (21.56% x $416,000 x 10%)	8,969
Total	$ 65,597

Cost per ton = $2.042
Cost per bushel = $0.049

2. Silage Hauling - 45,276 tons silage

a) number of loads =	45,276 tons ÷ 10 TPL =	4,528 tons
b) miles travelled =	4,528 loads x 40 miles =	181,120 miles
c) fuel consumed =	181,120 miles ÷ 5 MPG =	36,224 gallons

Cost

Fuel (36,224 gallons x $1.80)	$ 65,203
Grease, Oil	6,520
Licenses & Insurance (30.38% x $6,848)	2,080
Principal & Interest - Truck (30.38% x $70,637)	21,460
Wages & Benefits (30.38% of $14,400 x 1.15)	5,031
Custom Work - 9 tandem trucks	20,150
Repairs (30.38% x $416,000 x 10%)	12,638
Total	$ 133,082

Cost per ton = $2.939

3. Silage Swathing - 11,200 acres

a) average speed - 5 MPH - average 10 acres per hour
b) hours to swath - 11,200 acres ÷ 10 APH + 20% = 1,344 hours
c) fuel consumed - 1,344 hours x 4 gallons per hour = 5,376 gallons

Cost

Fuel (5,376 gallons x $1.80)	$ 9,677
Grease, Oil	968
Principal & Interest - Swathers	25,470
Repairs ($150,000 x 10%)	15,000
Wages & Benefits (1,344 hours x $9.00 x 1.15)	13,910
Total	$ 65,025

Cost per ton = $1.424

4. Silage Harvesting - 45,276 tons, 2 SP Harvesters

a) hours to harvest 45,276 tons ÷ 70 TPL + 20% = 776 hours
b) fuel consumed 776 hours x 10 gallons per hour = 7,760 gallons
c) days to harvest 776 hours ÷ 16 hrs/day ÷ 2 units = 24 days

Cost

Fuel (7,760 gallons x $1.80)	$ 13,968
Grease, Oil	1,397
Principal & Interest - Forage Harvesters	38,035
Repairs ($224,000 x 10%)	22,400
Wages & Benefits (776 hours x $9.00 x 1.15)	8,032
Total	$ 83,832

Cost per ton = $1.852

5. Silage Packing - 2-4 wheel drives custom work with fuel provided by complex

a) hours to pack = 776 hours
b) fuel consumed - 776 hours x 8 GPH = 6,208 gallons

Cost

Fuel (6,208 gallons x $1.80)	$ 11,174
Grease, Oil	1,117
Custom Work - 776 hours at $40.00	31,040
Total	$ 43,331

Cost per ton = $.957

6. Manure, Hauling, and Spreading - 71,618 tons

a) number of loads -	71,618 tons ÷ 15 TPL =	4,775 loads
b) miles travelled -	4,775 loads x 40 miles =	191,000 miles
c) fuel consumed -	191,000 miles ÷ 5 MPG =	38,200 gallons

Cost

Fuel (38,200 gallons x $1.80)	$ 68,760
Grease, Oil	6,876
Licenses & Insurance (48.06% x $6,848)	3,291
Principal & Interest (48.06% x $70,637)	33,948
Principal & Interest - Manure Spreaders	29,477
Repairs - Trucks (48.06% x $416,000 x 10%)	19,993
Repairs - Spreaders ($173,600 x 10%)	17,360
Wages & Benefits (48.06% x $14,400 x 1.15)	7,959
Total	$ 187,664

Cost per ton of manure = $2.620
Cost per ton of silage = $4.145

7. Loading Straw - 2,000 hours

Fuel Consumed (2,000 hours x 4 GPH x $1.80)	$ 14,400
Grease, Oil	1,440
Licenses & Insurance (31.56% x $1,068)	337
Principal & Interest - Loaders (31.56% x $25,470)	8,038
Repairs - Loaders (31.56% x $150,000 x 10%)	4,734
Total	$ 28,949

8. Loading Silage - 2,737 hours

Fuel Consumed (2,737 hours x 4 GPH x $1.80)	$ 19,706
Grease, Oil	1,971
Licenses & Insurance (43.19% x $1,068)	461
Principal & Interest - Loaders (43.19% x $25,470)	11,000
Repairs - Loaders (43.19% x $150,000 x 10%)	6,479
Wages & Benefits (2,737 hours x $9.00 x 1.15)	28,328
Total	$ 67,945

9. Loading Manure - 1,600 hours

Fuel Consumed (1,600 hours x 4 GPH x $1.80)	$ 11,520
Grease, Oil	1,152
Licenses & Insurance (25.25% x $1,068)	270
Principal & Interest - Loaders (25.25% x $25,470)	6,431
Repairs - Loaders (25.25% x $150,000 x 10%)	3,788
Wages & Benefits (1,600 hours x $9.00 x 1.15)	16,560
Total	$ 39,721

Cost per ton of silage = $.870

Notes to Financial Projections

INCOME

1. Inflation Rate

Assumed to be 5% per year.

2. Barley

Barley required = 1,338,480 bushels

3. Silage

Silage required = 45,276 tons

4. Straw for Bedding

Price = $25 per ton or $.0125 per pound
Pounds required = 5 pounds per animal per day for 150 days
Total Charge = 4,217,400 steer days x 5 lbs/day x $.0125/lb x $\frac{150}{365}$ = $108,324

5. Veterinary, Medicine, Salt, Minerals, and Vitamins

Estimated as an amount equal to $16.09 for 1982, adjusted to the year prior to the month in question by the animal production index published by Statistics Canada.

1982 Base Calculation - 150-day feeding period

Minerals	1.5 oz per day at $.02 per oz	$ 4.50
Salt	1 oz per day at $.0045 per oz	.68
Vitamin A	30,000 I.U. per day at $.01 per day	1.50
Growth P	2 at $1.50 each	3.00
Vet Costs		6.41
Total Cost Per Animal		$ 16.09

Because there will be a vet technician on staff, the amount allotted for vet costs in the Base calculation will be reduced.

Adjusted to 1986 figures, the cost per head would be $ 13.16
Total Charge (YR1) = 29,040 head x $13.16 = $382,166

6. Feedlot Charge

$.15 per animal per day

Total Charge (YR1) = 4,217,400 steer days x $.15 = $632,610

7. Processing Charge

$15.00 per ton of feed

Barley	1,338,480 =	32,124 tons
Silage		45,276 tons
		77,400

Total Charge (YR1) = 77,400 tons x $15.00 = $1,161,000

EXPENSES

1. Barley Purchases

Bushels required = 1,338,480

Market Price	$ 1.600
Less Trucking Expense	.049
Feedlot Cost	$ 1.551

Purchases: 1,338,480 bushels x $1.551 = $2,075,982

2. Silage Purchases

Tons required = 45,276

Market Price			$ 40.00
Less:	Hauling expense	2.939	
	Swathing expense	1.424	
	Harvesting expense	1.852	
	Packing expense	.957	
	Manure hauling/spreading	4.145	
	Loading manure	.870	12.187
Feedlot Cost			$ 27.813

Purchases: 45,276 x $27.813 = $1,259,261

3. Straw for Bedding

Price = $25 per ton or $.0125 per pound
Pounds required - 5 pounds per animal per day for 150 days
Purchases (YR1) = 4,217,400 steer days x 5 lbs/ day x $.0125 x $\frac{150}{365}$ = $106,920

4. Veterinary, Medicine, Salt, Mineral, and Vitamins

Estimated at $13.16 per animal.
Total Cost (YR1) = 29,040 head x $13.16 per head = $382,166

5. Fuel

Price = $1.80 per gallon
Estimated Consumption = 165,000 gallons
Total Cost = 165,000 gallons x $1.80 = $297,000

6. Grease, Oil

Estimated at 10% of the cost of fuel
$297,000 x 10% = $29,700

7. Repairs on Equipment

Estimated at 10% of the original cost of the equipment
$1,308,600 x 10% = $130,860

8. Direct Labour

Full-Time Employees		
Yard Foreman	25,000	
Feedmill Operator Electrical Combined	25,000	
4 Pen Checkers with Horses at $25,000	100,000	
10 Yardmen at $22,000	220,000	
Vet Technician	30,000	$ 400,000
Part-Time Employees		
Hauling	14,400	
Swathing	12,096	
Silage Harvesting	7,047	33,543
Total Wages		433,543
Plus 15% for Benefits		65,031
Total Labour Cost		$ 498,574

The yardmen will be responsible for the following:

- drive feed trucks
- work with pen checkers
- lay bedding
- load, haul, and spread manure
- haul silage and grain
- process new cattle
- process fat cattle
- treat sick cattle

9. Custom Work

Custom Hauling - 9 tandem trucks 403 hours at $50 per hour	$ 20,150
Silage Packing - 2-4 wheel drives 783 hours at $40 per hour	31,320
Total Custom Work Cost	$ 51,470

INDIRECT EXPENSES

1. Indirect Labour

Manager	$ 40,000
Computer Accountant	30,000
2 Secretaries at $15,000	30,000
Mechanic - Welder	25,000
Total Wages	125,000
Plus 15% for Benefits	18,750
Total Indirect Labour Cost	$ 143,750

2. Licenses and Insurance

Licenses:	Tandem Trucks	8 units at $500 =	$ 4,000
Insurance:	Tandem Trucks	8 units at $356 =	2,848
	Loaders	3 units at $356 =	1,068
	Feed Trucks	2 units at $356 =	712
Total Cost			$ 8,628

3. Utilities

Estimated at $1,000 per month

4. Building and Fence Repairs

Estimated at 1% of capital cost	
Long Term Investment in Facility	$3,174,537
Less Cost of Land	35,625
Total	$3,138,912

$3,138,912 x 1% = $31,389

5. Property Taxes

Estimated at $2,500 per year

6. Debt Service

The total amount to be financed equals $2,043,137. This amount will be financed through an intermediate loan and a long-term loan. The intermediate loan is amortized over 10 years at an assumed interest rate of 11%. The long-term debt is amortized over 20 years at an assumed interest rate of 11%. (See Chart).

DEBT SERVICE WORKSHEET : PATHLOW AREA

YEAR	INTERMEDIATE			LONG - TERM			TOTAL		
	BAL O/S	INTEREST	PRINC	BAL O/S	INTEREST	PRINC	BAL O/S	INTEREST	PRINC
START UP	1021469	56181	30542	1021469	56181	7967	2042937	112362	38509
ONE	990927	109002	64443	1013501	111485	16811	2004428	220487	81255
TWO	926483	101913	71532	996690	109636	18661	1923173	211549	90193
THREE	854951	94045	79401	978029	107583	20713	1832980	201628	100114
FOUR	775550	85311	88135	957316	105305	22992	1732866	190615	111127
FIVE	687415	75616	97830	934324	102776	25521	1621740	178391	123350
SIX	589586	64854	108591	908803	99968	28328	1498389	164823	136919
SEVEN	480995	52909	120536	880475	96852	31444	1361470	149762	151980
EIGHT	360459	39650	133795	849031	93393	34903	1209490	133044	168698
NINE	226664	24933	148512	814128	89554	38742	1040792	114487	187255
TEN	78152	8597	78152	810289	89132	39165	888441	97728	117317

* NOTE : This intermediate debt is amortized over 10 years at 11%. The long term debt is amortized over 20 years at 11%.

7. Depreciation

INTERMEDIATE INVESTMENT

Investment In Equipment	Quantity	Unit Price	Total
Tandem Trucks	8	52,000	$ 416,000
Manure Spreaders	8	21,700	173,600
Forage Swathers	3	50,000	150,000
SP Forage Harvesters	2	112,000	224,000
Loaders	3	50,000	150,000
Feed Trucks	2	97,500	195,000
1/2-Ton Truck	1	10,000	10,000
Service Truck - Equipped to do Fieldwork	1	25,000	25,000
Fuel Truck	1	20,000	20,000
			1,363,600
Other Investment			
Shop Tools			25,000
Computer and Office Equipment			30,000
Total Intermediate Investment			$ 1,418,600

LONG-TERM INVESTMENT

Investment	
Land 57 acres at $625 per acre	$ 35,625
Feeding Facilities - shaped and compacted asphalt bunker silos, dirt walls, and asphalt floors	2,012,605
Handling, Starting and Sick Pen Facilities	90,000
3-Phase Power and Telephone	14,000
Portable Roller Mill, 100' Scale, etc.	280,260
Office	55,675
Workshop	81,900
Feeding Facilities - Materials & Equipment	604,472
Total Long-Term Investment	$ 3,174,537

Equipment is depreciated over 10 years, whereas, the feedlot facilities (excluding land) are depreciated over 20 years.

Pathlow: Equipment = $141,860 per year
Facilities = $156,946 per year

PATHLOW FEEDLOT COMPLEX - INCOME AND EXPENSE STATEMENT

barley price:	1.60	per bushel
silage price:	40.00	per ton
inflation rate:	1.05	per year
calves:	6600	head
short keeps:	22440	head

	START-UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
INCOME						
Feed - Barley	892320	2141568	2141568	2141568	2141568	2141568
- Silage	754600	1811040	1811040	1811040	1811040	1811040
Straw for Bedding	40621	108324	110581	116110	121915	128011
Veterinary, Etc.	159236	382166	401275	421338	442405	464526
Feedlot Charge	263587	632610	664241	697453	732325	768941
Feed Processing Chg.	483747	1160993	1219042	1279995	1343994	1411194
Total Income	2594112	6236701	6347746	6467503	6593248	6725280
DIRECT EXPENSES						
Cost of Feed Used:						
Barley	864993	2075982	2075982	2075982	2075982	2075982
Silage	524692	1259261	1259261	1259261	1259261	1259261
Straw	40621	108324	110581	116110	121915	128011
Veterinary, Etc.	159236	382166	401275	421338	442405	464526
Fuel	108000	297000	297000	297000	297000	297000
Oil, Grease	10800	29700	29700	29700	29700	29700
Equipment Repairs	54525	130860	137403	144273	151487	159061
Labour	191122	498576	523505	549680	577164	606022
Custom Work	20588	51470	54044	56746	59583	62562
Total Direct Expenses	1974577	4833340	4888750	4950091	5014498	5082126
PROFIT (LOSS) MARGIN	619535	1403361	1458996	1517412	1578750	1643154
INDIRECT EXPENSES						
Labour	71874	143750	150938	158484	166409	174729
Licenses & Insurance	4314	8628	9059	9512	9988	10487
Utilities	6000	12000	12600	13230	13892	14586
Bldg & Fence Repairs	15695	31389	32959	34607	36337	38154
Property Taxes	2500	2500	2625	2756	2894	3039
Interest	112362	220487	211549	201628	190615	178391
Depreciation - Equip.	70930	141860	141860	141860	141860	141860
Depreciation - Facil.	78473	156946	156946	156946	156946	156946
	362147	717560	718535	719023	718940	718192
NET PROFIT (LOSS)	257388	685801	740461	798389	859810	924962

PATHLOW FEEDLOT COMPLEX - COST OF FEED USED

	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
BARLEY						
BEGINNING INVENTORY	0	0	0	0	0	0
ADD PURCHASES	864993	2075982	2075982	2075982	2075982	2075982
DEDUCT ENDING INV.	0	0	0	0	0	0
COST OF BARLEY USED	864993	2075982	2075982	2075982	2075982	2075982
SILAGE						
BEGINNING INVENTORY	0	629631	629631	629631	629631	629631
ADD PURCHASES	1154323	1259261	1259261	1259261	1259261	1259261
DEDUCT ENDING INV.	629631	629631	629631	629631	629631	629631
COST OF SILAGE USED	524692	1259261	1259261	1259261	1259261	1259261
STRAW						
BEGINNING INVENTORY	0	63185	63185	66344	69662	73145
ADD PURCHASES	103807	108324	113740	119427	125398	131668
DEDUCT ENDING INV.	63185	63185	66344	69662	73145	76802
COST OF STRAW USED	40621	108324	110581	116110	121915	128011

PATHLOW FEEDLOT COMPLEX - PROFORMA BALANCE SHEET

	YEAR 0	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
ASSETS:							
Cash	1200000	875465	1778817	2724731	3718495	4762501	5859261
Feed Inventory	0	692816	692816	695975	699292	702775	706433
Machinery & Equipment	1418600	1418600	1418600	1418600	1418600	1418600	1418600
Accum. Depreciation - Equipment	0	-70930	-212790	-354650	-496510	-638370	-780230
Feeding Facilities	3174537	3174537	3174537	3174537	3174537	3174537	3174537
Accum. Depreciation - Facilities	0	-78473	-235418	-392364	-549310	-706255	-863201
Total Assets	5793137	6012015	6616562	7266830	7965105	8713788	9515400
LIABILITIES & EQUITY							
Intermediate Loan	1021469	990927	926483	854951	775550	687415	589586
Long Term Loan	1021469	1013501	996690	978029	957316	934324	908803
Shareholder's Equity	3750000	3852955	4127276	4423460	4742816	5086740	5456724
Beef Producer's Equity	200	154633	566113	1010390	1489423	2005309	2560287
Total Liabilities & Equity	5793137	6012015	6616562	7266830	7965105	8713788	9515400

PATHLOW FEEDLOT COMPLEX - FEED INVENTORY

calves 5600 head
short keeps 22440 head

market price for barley: 1.60 per bushel
market price for silage: 40.00 per ton

	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
BEGINNING INVENTORY	0	692816	692816	695975	699292	70277
ADD PURCHASES:						
BARLEY	864993	2075982	2075982	2075982	2075982	207598
SILAGE	1154323	1259261	1259261	1259261	1259261	1259261
STRAW	103807	108324	113740	119427	125398	13166
TOTAL	2123122	3443567	3448984	3454671	3460642	346691
DEDUCT USAGE:						
CALVES:						
BARLEY	255915	614196	614196	614196	614196	614196
SILAGE	186625	447901	447901	447901	447901	44790
STRAW	13604	36277	37033	38885	40829	4287
TOTAL	456144	1098374	1099130	1100981	1102926	110496
SHORT KEEP						
BARLEY	609078	1461786	1461786	1461786	1461786	1461786
SILAGE	338067	811361	811361	811361	811361	81136
STRAW	27017	72046	73547	77225	81086	8514
TOTAL	974162	2345194	2346695	2350372	2354233	235828
ENDING INVENTORY	692816	692816	695975	699292	702775	706433

PATHLOW FEEDLOT COMPLEX - INCOME AND EXPENSE STATEMENT

barley price:	1.60	per bushel
silage price:	40.00	per ton
inflation rate:	1.05	per year
calves:	6600	head
short keeps:	12818	head

	START-UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
INCOME						
Feed - Barley	622904	1494970	1494970	1494970	1494970	1494970
- Silage	546123	1310696	1310696	1310696	1310696	1310696
Straw for Bedding	29037	77431	79044	82997	87146	91504
Veterinary, Etc.	106475	255541	268318	281734	295821	310612
Feedlot Charge	188416	452198	474807	498548	523475	549649
Feed Processing Chg.	344950	827879	869273	912737	958374	1006292
Total Income	1837905	4418714	4497108	4581681	4670481	4763722
DIRECT EXPENSES						
Cost of Feed Used:						
Barley	603828	1449186	1449186	1449186	1449186	1449186
Silage	379733	911360	911360	911360	911360	911360
Straw	29037	77431	79044	82997	87146	91504
Veterinary, Etc.	106475	255541	268318	281734	295821	310612
Fuel	108000	297000	297000	297000	297000	297000
Oil, Grease	10800	29700	29700	29700	29700	29700
Equipment Repairs	54525	130860	137403	144273	151487	159061
Labour	191122	498576	523505	549680	577164	606022
Custom Work	20588	51470	54044	56746	59583	62562
Total Direct Expenses	1504108	3701124	3749559	3802675	3858447	3917007
PROFIT (LOSS) MARGIN	333797	717590	747549	779005	812035	846715
INDIRECT EXPENSES						
Labour	71874	143750	150938	158484	166409	174729
Licenses & Insurance	4314	8628	9059	9512	9988	10487
Utilities	6000	12000	12600	13230	13892	14586
Bldg & Fence Repairs	15695	31389	32959	34607	36337	38154
Property Taxes	2500	2500	2625	2756	2894	3039
Interest	112362	220487	211549	201628	190615	178391
Depreciation - Equip.	70930	141860	141860	141860	141860	141860
Depreciation - Facil.	78473	156946	156946	156946	156946	156946
	362147	717560	718535	719023	718940	718192
NET PROFIT (LOSS)	-28350	31	29014	59982	93095	128524

NOTE : This statement shows the occupancy of short keeps required to break even in the first year.

FEEDLOT COMPLEX

PROJECTED MONTHLY CASHFLOW FOR START UP YEAR - PATHLOW AREA

	TOTAL	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
INCOME :													
FEED - BARLEY	892320	0	0	0	0	0	0	59488	118976	178464	178464	178464	178464
- SILAGE	754600	0	0	0	0	0	0	50307	100613	150920	150920	150920	150920
STRAW FOR BEDDING	40621	0	0	0	0	0	0	0	0	0	0	20311	20311
VET., ETC.	159236	0	0	0	0	0	0	10616	21231	31847	31847	31847	31847
FEEDLOT CHARGE	263587	0	0	0	0	0	0	17572	35145	52717	52717	52717	52717
FEED PROCESSING CHARGE	483747	0	0	0	0	0	0	32250	64500	96749	96749	96749	96749
TOTAL	2594111	0	0	0	0	0	0	170233	340465	510698	510698	531009	531009
EXPENSES:													
BARLEY PURCHASES	864993	0	0	0	0	0	0	57666	115332	172999	172999	172999	172999
SILAGE PURCHASES	1154323	0	0	0	0	0	0	288581	288581	288581	288581	0	0
STRAW PURCHASES	103807	0	0	0	0	0	0	0	0	0	0	103807	0
VET., ETC.	159236	0	0	0	0	0	0	10616	21231	31847	31847	31847	31847
FUEL	108000	0	0	0	0	0	0	13500	27000	27000	13500	13500	13500
OIL, GREASE	10800	0	0	0	0	0	0	1350	2700	2700	1350	1350	1350
EQUIPMENT REPAIR	54525	0	0	0	0	0	0	3635	7270	10905	10905	10905	10905
LABOUR - DIRECT	191122	0	0	0	0	0	0	15789	31577	31577	37393	37393	37393
CUSTOM WORK	20588	0	0	0	0	0	0	3431	6863	10294	0	0	0
LABOUR - INDIRECT	71874	0	0	0	0	0	0	11979	11979	11979	11979	11979	11979
LICENSES & INSURANCE	4314	0	0	0	0	0	0	719	719	719	719	719	719
UTILITIES	6000	0	0	0	0	0	0	1000	1000	1000	1000	1000	1000
BLDG & FENCE REPAIRS	15695	0	0	0	0	0	0	1046	2093	3139	3139	3139	3139
PROPERTY TAXES	2500	0	0	0	0	0	0	0	0	0	2500	0	0
DEBT SERVICE	150871	0	0	0	0	0	0	25145	25145	25145	25145	25145	25145
TOTAL EXPENSES	2918648	0	0	0	0	0	0	434457	541491	617885	601057	413783	309976
SURPLUS (DEFICIT)	-324537	0	0	0	0	0	0	-264224	-201025	-107187	-90359	117226	221033
PRESENT OPERATING LOAN	0	0											
OPERATING LOAN REQUIRED	-324537	0	0	0	0	0	0	-264224	-465250	-572436	-662795	-545570	-324537

FEEDLOT COMPLEX

PROJECTED MONTHLY CASHFLOW FOR YEAR 1 - PATHLOW AREA

	TOTAL	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
INCOME :													
FEED - BARLEY	2141568	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464
- SILAGE	1811040	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920
STRAW FOR BEDDING	108324	21665	21665	21665	0	0	0	0	0	0	0	21665	21665
VET., ETC.	382166	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847
FEEDLOT CHARGE	632610	52718	52718	52718	52718	52718	52718	52718	52718	52718	52718	52718	52718
FEED PROCESSING CHARGE	1160993	96749	96749	96749	96749	96749	96749	96749	96749	96749	96749	96749	96749
TOTAL	6236701	532363	532363	532363	510698	510698	510698	510698	510698	510698	510698	532363	532363
EXPENSES:													
BARLEY PURCHASES	2075982	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999
SILAGE PURCHASES	1259261	0	0	0	0	0	0	314815	314815	314815	314815	0	0
STRAW PURCHASES	108324	0	0	0	0	0	0	0	0	0	0	108324	0
VET., ETC.	382166	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847	31847
FUEL	297000	13500	13500	13500	13500	40500	40500	40500	40500	40500	13500	13500	13500
OIL, GREASE	29700	1350	1350	1350	1350	4050	4050	4050	4050	4050	1350	1350	1350
EQUIPMENT REPAIR	130860	10905	10905	10905	10905	10905	10905	10905	10905	10905	10905	10905	10905
LABOUR - DIRECT	498576	37393	37393	37393	37393	47365	47365	47365	47365	47365	37393	37393	37393
CUSTOM WORK	51470	0	0	0	0	10294	10294	10294	10294	10294	0	0	0
LABOUR - INDIRECT	143750	11979	11979	11979	11979	11979	11979	11979	11979	11979	11979	11979	11979
LICENSES & INSURANCE	8628	719	719	719	719	719	719	719	719	719	719	719	719
UTILITIES	12000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
BLDG & FENCE REPAIRS	31389	2616	2616	2616	2616	2616	2616	2616	2616	2616	2616	2616	2616
PROPERTY TAXES	2500	0	0	0	0	0	0	0	0	0	2500	0	0
DEBT SERVICE	301742	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145
TOTAL EXPENSES	5333348	309453	309453	309453	309453	359418	359418	674234	674234	674234	626768	417777	309453
SURPLUS (DEFICIT)	903353	222910	222910	222910	201245	151280	151280	-163536	-163536	-163536	-116070	114586	222910
PRESENT OPERATING LOAN	-324537	-324537											
OPERATING LOAN REQUIRED	578816	-101627	121283	344193	545438	696718	847997	684462	520926	357390	241320	355906	578816

FEEDLOT COMPLEX

PROJECTED MONTHLY CASHFLOW FOR YEAR 2 - PATHLOW AREA

	TOTAL	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
INCOME :													
FEED - BARLEY	2141568	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464	178464
- SILAGE	1811040	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920	150920
STRAW FOR BEDDING	110581	22116	22116	22116	0	0	0	0	0	0	0	22116	22116
VET., ETC.	401275	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440
FEEDLOT CHARGE	664241	55353	55353	55353	55353	55353	55353	55353	55353	55353	55353	55353	55353
FEED PROCESSING CHARGE	1219042	101587	101587	101587	101587	101587	101587	101587	101587	101587	101587	101587	101587
TOTAL	6347747	541880	541880	541880	519764	519764	519764	519764	519764	519764	519764	541880	541880
EXPENSES:													
BARLEY PURCHASES	2075982	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999	172999
SILAGE PURCHASES	1259261	0	0	0	0	0	0	314815	314815	314815	314815	0	0
STRAW PURCHASES	113740	0	0	0	0	0	0	0	0	0	0	113740	0
VET., ETC.	401275	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440	33440
FUEL	297000	13500	13500	13500	13500	40500	40500	40500	40500	40500	13500	13500	13500
OIL, GREASE	29700	1350	1350	1350	1350	4050	4050	4050	4050	4050	1350	1350	1350
EQUIPMENT REPAIR	137403	11450	11450	11450	11450	11450	11450	11450	11450	11450	11450	11450	11450
LABOUR - DIRECT	523505	39263	39263	39263	39263	49733	49733	49733	49733	49733	39263	39263	39263
CUSTOM WORK	54044	0	0	0	0	10809	10809	10809	10809	10809	0	0	0
LABOUR - INDIRECT	150938	12578	12578	12578	12578	12578	12578	12578	12578	12578	12578	12578	12578
LICENSES & INSURANCE	9059	755	755	755	755	755	755	755	755	755	755	755	755
UTILITIES	12600	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050
BLDG & FENCE REPAIRS	32959	2747	2747	2747	2747	2747	2747	2747	2747	2747	2747	2747	2747
PROPERTY TAXES	2625	0	0	0	0	0	0	0	0	0	2625	0	0
DEBT SERVICE	301742	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145	25145
TOTAL EXPENSES	5401833	314276	314276	314276	314276	365255	365255	680070	680070	680070	631716	428016	314276
SURPLUS (DEFICIT)	945914	227604	227604	227604	205488	154509	154509	-160306	-160306	-160306	-111952	113864	227604
PRESENT OPERATING LOAN	578816	578816											
OPERATING LOAN REQUIRED	1524730	806420	1034024	1261628	1467116	1621625	1776134	1615827	1455521	1295214	1183262	1297126	1524730

PROFIT SHARING WITH THE FEEDLOT

The important concept in the structure of the feedlot complex is that, unless occupancy is very low (less than 60 percent), the feedlot operation will always turn a profit. Changes in the price of feed and supplements are passed on to the beef producer and changes in the cost of direct expenses (fuel, oil, grease, equipment repair, labour, etc.) are passed on to the grain producer through fluctuations in the price paid for feed supplied to the feedlot.

By becoming a shareholder in the feedlot complex, the beef producer or grain producer can share in the profits of the feedlot. The profits of the feedlot are allocated between the beef producers and the grain producers on a 60 - 40 basis respectively. At the end of each year, the Board of Directors will meet to decide what proportion of the profits will be paid out. A portion of the profits will be retained by the feedlot to serve as a cushion against unexpected circumstances.

For example, if the profit of the feedlot is $300,000, $180,000 will be allocated to the beef producers and $120,000 to the grain producers.

The beef producer shares in the profit of the feedlot by purchasing a $1.00 share in the feedlot and investing $1,000 to become a member of a feeder association. The profits of the feedlot are divided among the beef producers on a per head basis. Continuing with the previous example, if two hundred $1.00 shares (10,000 head) have been sold, then the $180,000 will be allocated to beef producers at $18.00 per head. If a beef producer has two shares in the feedlot, 100 head of his cattle will be included in the profit sharing and he will be allocated $1,800. In the following year, if the producer only has 90 head fed through the feedlot, he will be allocated $1,620. This measure acts as an incentive for the beef producer to feed the same number of cattle through the feedlot each year which has a stabilizing effect on the feedlot operation.

The per head calculations are based on 10,000 head or 200 shares being sold. If fewer than 10,000 head are fed through the feedlot by beef producer shareholders, the allocation is still based upon 10,000 head. However, if more than 10,000 calves are fed through the feedlot by beef producers, the per head calculations are made using actual numbers. Continuing with the example, if only 7,500 head are fed through the feedlot by beef producer shareholders, the allocation would remain at $18.00 per head. If beef producers fed 11,000 head through the feedlot (220 shares), then the allocation would be $16.36 per head.

The grain producer can purchase one or more shares in the feedlot at a

price of $18,750 per share. Each producer must also invest $1,250 to become a member of a feeder association. Each share commits the producer to supply 226 tons of silage and 6,700 bushels of barley to the feedlot for which he will receive high market prices. Thus, he will receive a high positive return on the silage and barley acres committed to the feedlot. Based on the following yields per acre for silage, the investment per acre of silage would be as follows:

	Net Yield	Acres per Share	Investment Per Acre
Pathlow	5.4	41.85	$448.03

Each share also results in sharing the profits of the feedlot. From the example, the $120,000 will be allocated to producers on a per share basis. If 200 shares have been sold to grain producers then each share will be allocated $600. A producer who has two shares in the feedlot will be allocated $1,200 and will be obligated to supply 456 tons of silage and 13,200 bushels of barley to the feedlot. His return per acre of silage would be $14.34 per acre in the Pathlow area.